

## Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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DRAFTED BY EB/ORF/FSE:WARILEY:MEP

APPROVED BY EB - MR. KATZ

EUR/CAN - DBLAKEMORE

EB/ORF/FSE - LRRACHT

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

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E.O. 11652:

TAGS: ENRG

SUBJECT:SUMMARY: SENATE OVERSIGHT HEARINGS ON ALASKAN

1. SENATE COMMERCE AND INTERIOR AND INSULAR AFFAIRS  
COMMITTEES HELD JOINT OVERSIGHT HEARINGS ON STATUS FEDERAL  
AGENCY CONSIDERATION OF ALASKAN NATURAL GAS DELIVERY  
SYSTEM ON FEBRUARY 17.

2. HEARINGS CHAIRED BY SENATOR BUMPERS, ARKANSAS IN  
ABSENCE CHAIRMAN JACKSON, WASHINGTON WERE WELL ATTENDED.  
SENATORS MONDALE, FORD, TUNNEY, METCALF, MOSS, FANNIN,  
STEVENS, HANSEN, HATFIELD, JOHNSTON AND MAGNUSON WERE  
PRESENT - MAGNUSON ONLY BRIEFLY. SENATORS MONDALE AND  
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STEVENS AS LEADING PROPONENTS OF TRANS-CANADA AND ALASKA

LNG ROUTES RESPECTIVELY, WERE MOST VOCAL AND ACTIVE QUESTIONERS. GALLERY WAS OVERFLOWING, STANDING ROOM ONLY THROUGHOUT SESSION WHICH HEARD TESTIMONY FROM FPC CHAIRMAN RICHARD DUNHAM, FEA DEPUTY ADMINISTRATOR JOHN HILL, TREASURY ASSISTANT SECRETARY GERALD PARSKY, INTERIOR ASSISTANT SECRETARY WILLIAM FISHER AND TRANSPORTATION ASSISTANT SECRETARY THOMAS CURTIS. DEPUTY ASSISTANT SECRETARY JULIUS L. KATZ TESTIFIED FOR STATE DEPARTMENT.

3. FPC CHAIRMAN RICHARD DUNHAM TESTIFIED THAT COMMISSION HAD COMPLETED DIRECT CASES OF TWO APPLICANTS AND DESPITE LACK OF NATURAL GAS SALES CONTRACTS EXPECTED TO HAVE SUFFICIENT DATA TO REACH A DECISION BY DECEMBER 1, DATE GIVEN TO CONGRESS LAST OCTOBER 9, 1975 AT HOUSE PUBLIC LANDS SUBCOMMITTEE (MELCHER) HEARINGS.

4. DUNHAM INDICATED THAT FPC COULD "CONDITIONALLY" CERTIFY A PROJECT IN ABSENCE OF SALES CONTRACTS. ON MANY OTHER MATTERS DUNHAM ABSTAINED FROM COMMENT NOTING COMMISSION WOULD HAVE TO MAKE DECISION BASED ON PUBLIC HEARING EVIDENCE AND THAT IT WOULD BE INAPPROPRIATE TO DISCUSS MATTERS BEFORE THE COMMISSION.

5. IN RESPONSE TO QUERY FROM SENATOR STEVENS, DUNHAM SAID FOREIGN POLICY AND SECURITY MATTERS WERE PURVIEW OF OTHER AGENCIES AND CONGRESS BUT THAT STATE AND DEFENSE WERE INVITED TO GO ON THE RECORD WITH THEIR COMMENTS ON FOREIGN POLICY AND DEFENSE IMPLICATIONS OF THE TWO ALTERNATIVE ROUTES. HE NOTED THAT ANY POSITION STATE TOOK WOULD HAVE TO BE ON RECORD, OPEN TO THE PUBLIC PROCEEDINGS.

6. REGARDING DELAY RESULTING FROM LITIGATION OF FPC DECISION, DUNHAM SAID THAT IT WOULD TAKE 2-2.5 YEARS OR LONGER TO RESOLVE THE ISSUE.

7. FISHER TESTIFIED THAT INTERIOR ECONOMIC AND RISK ANALYSIS INDICATED EITHER ROUTE WAS FEASIBLE TECHNICALLY AND NOTED THAT THE BENEFITS EXCEED COSTS FOR BOTH ALTERNATIVES ALTHOUGH IT WAS NOT CLEAR AT THIS STAGE WHICH ROUTE WAY SUPERIOR.

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8. PARSKY SAID PRIVATE FINANCING OF PROJECTS OF THIS MAGNITUDE WAS, IN TREASURY'S OPINION, POSSIBLE BUT DIFFICULT. HE SAID BENEFICIARIES OF THE GAS DELIVERY SHOULD PAY PERHAPS THROUGH AN ALL EVENTS FULL COST OF SERVICE TARIFF TO DEAL WITH THE RISKS OF PROJECT NON-COMPLETION OR INADEQUATE REVENUE FROM PROJECT. HE SAID TREASURY DID NOT FAVOR GOVERNMENTAL GUARANTEES OF THE PROJECT AT

THIS STAGE.

9. HILL, (FEA) STATED THAT FIVE YEAR DELAY IN START UP WOULD MEAN INCREASED CONSTRUCTION COSTS OF \$3.6 TO 4.8 BILLION, A 40 PERCENT INCREASE. HILL INDICATED THAT FEA'S MAIN CONCERN WAS THE LENGTH OF TIME REQUIRED TO IMPLEMENT EITHER SYSTEM. TAPS EXPERIENCE DEMONSTRATED THIS COULD BE CONSIDERABLY SHORTENED BY EFFECTIVE EXECUTIVE/LEGISLATIVE ADDRESS OF THIS PROBLEM.

10. KATZ (STATE) TESTIFIED ON THE CURRENT STATUS OF THE CANADIAN REGULATORY PROCEDURES AND OUTLINED THE PROVISIONS OF THE DRAFT US-CANADA TRANSIT PIPELINE TREATY. (STATEMENT AND TRANSCRIPT POUCHED).

11. CURTIS (TRANSPORTATION) TESTIFIED THAT BOTH DELIVERY MODES COULD BE ADEQUATELY SAFEGUARDED THROUGH SYSTEM DESIGN, MONITORING, ETC.

12. SEVERAL ADMINISTRATION WITNESSES, QUESTIONED ABOUT DESIRABILITY OF LEGISLATION TO ELIMINATE DELAY IN ROUTE SELECTION, NOTED THAT ACTIVE CONSIDERATION WAS BEING GIVEN TO THIS POSSIBILITY; AND, THAT IN GENERAL, THE ADMINISTRATION FAVORED RAPID MOVEMENT TO EXPEDITE A DECISION HOWEVER, IN THE ABSENCE OF SUFFICIENT DATA TO MAKE A JUDGEMENT OR SELECT A ROUTE IT APPEARED INFEASIBLE TO MAKE A DECISION ON ROUTE AT THIS TIME. IT WAS FELT LEGISLATION COULD BE DEFERRED UNTIL THE PROBLEMS WERE BETTER UNDERSTOOD.

13. SENATOR HANSEN QUERIED STATE'S VIEW THAT THE TRANSIT PIPELINE TREATY OFFERED SUBSTANTIAL PROTECTION TO AN ALASKAN NATURAL GAS DELIVERY SYSTEM CROSSING CANADA. HE LIMITED OFFICIAL USE

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NOTED THAT CANADIAN FEDERAL GOVERNMENT CONTROL OF THE PROVINCES WAS LIMITED AND ASKED IF WE COULD RELY ON THE GOOD FAITH OF THE PROVINCIAL GOVERNMENTS. MR. KATZ EXPLAINED THE BASIC ISSUE WAS LIMITATION OF THE LEVELS OF TAXATION IMPOSED BY THE PROVINCES. HE SAID THAT IT WAS DIFFICULT TO DEAL WITH THIS ISSUE IN THE ABSTRACT IN A GENERAL TREATY OF LONG DURATION. KATZ NOTED THAT IN A SPECIFIC PROJECT THIS MATTER COULD BE HANDLED WITH THE GOVERNMENT OF CANADA UNDERTAKING BINDING AGREEMENTS WITH THE PROVINCES.

14. SENATOR STEVENS SAID THAT AN ALASKA-LNG ROUTE WAS MORE FLEXIBLE THAN A TRANS-CANADA PIPELINE SINCE LNG TANKERS AND LIQUEFACTION FACILITIES IN SOUTHERN ALASKA COULD HANDLE OTHER ALASKAN NATURAL GAS ESTIMATED AT 76

TRILLION CUBIC FEET OUTSIDE THE ARCTIC. STEVENS FURTHER NOTED THAT ALL ENVIRONMENTAL INTEREST GROUPS OPPOSED THE TRAMS-CANADA ROUTE WHICH WOULD CROSS THE ARCTIC WILDLIFE RANGE.

15. SENATOR MONDALE ASKED MR. KATZ IF CANADA WAS RELIABLE AND WHAT EXPERIENCE WE HAD IN DEALING WITH CANADA ON PIPELINES. MR. KATZ NOTED THAT CONSIDERABLE ENERGY HAD BEEN AND IS BEING EXPORTED FROM CANADA TO THE US VIA PIPELINE. HE SAID THERE HAD BEEN NO PROBLEM WITH PRO-

VINCIAL GOVERNMENT INTERFERENCE. MONDALE SAID HIS REGION HISTORICALLY DEPENDED ON CANADA FOR ENERGY. HE NOTED THAT IF A TRANS CANADA PIPELINE WAS BUILT, THE PROVINCES WOULD NOT CONTROL ALASKAN GAS. MONDALE ASKED IF THE TRANSIT PIPELINE TREATY WOULD PROVIDE PROTECTION AGAINST DISCRIMINATORY TAXATION; MR. KATZ REPLIED AFFIRMATIVELY.

16. SENATOR STEVENS ASKED TREASURY TO ANALYZE THE FOREIGN EXCHANGE COSTS AND BALANCE OF PAYMENTS IMPLICATIONS OF THE TWO ROUTES.

17. STEVENS ASSERTED THAT CANADIAN PARLIAMENT MEMBERS HAD ASSURED HIM THAT PROVINCES' TAXATION POWER WAS UNLIMITED AND COULD NOT BE CONSTRAINED BY TREATY. HE CITED 1937 CANADIAN SUPREME COURT CASE AS AUTHORITY AND REFERRED LIMITED OFFICIAL USE

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TO TESTIMONY BEFORE FPC OF CANADIAN ATTORNEY WALTER WILLISTON. MR. KATZ AND SENATOR STEVENS ENGAGED IN DISCUSSION OF POSSIBILITY PROVINCES' COULD TAX THROUG;PUT IN TRAMS-CANADIAN PIPELINE. KATZ MAINTAINED SUCH TAX WOULD BE UNCONSTITUTIONAL AND INFRINGING ON VANADIAN FEDERAL AUTHORITY WITH REGARD TO REGULATING INTERPROVINCIAL AND INTERNATIONAL TRADE. STEVENS WAS UNPERSUADED AND ASKED FOR ELABORATION OF KATZ' POSITION IN LEGAL BRIEF PREVERED BY STATE LEGAL ADVISER. KISSINGER

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